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RUEHSP/AMEMBASSY PORT OF SPAIN 3638
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RUCPDOG/DEPT OF COMMERCE
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C O N F I D E N T I A L CARACAS 001774

SIPDIS

ENERGY FOR CDAY AND ALOCKWOOD
HQ SOUTHCOM ALSO FOR POLAD
TREASURY FOR RJARPE
COMMERCE FOR 4431/MAC/WH/JLAO

E.O. 12958: DECL: 12/22/2018
TAGS: [EPET](#) [EINV](#) [VE](#)
SUBJECT: VENEZUELA: CHEVRON CONFIRMS OPEC QUOTA CUTS

Classified By: Economic Counselor Darnall Steuart, for reasons 1.4 (b)
and (d)

11. (C) SUMMARY. A senior Chevron executive confirmed that PDVSA is aggressively enforcing OPEC-mandated quota cuts in the hope that the cuts will turn around the slump in oil prices. So far, the cuts have been levied on joint ventures based on the price per barrel received for the crude sales. PDVSA payments to joint venture partners also continue to lag. Chevron was contacted by PDVSA with a query about why a Chevron secondee (a U.S. citizen) had not yet signed the petition supporting the upcoming referendum for President Chavez's indefinite re-election. End Summary.

OPEC QUOTA CUTS

12. (C) Wes Lohec, Managing Director of Chevron's Latin America business unit, confirmed December 18 that PDVSA is aggressively enforcing OPEC-mandated quota cuts. Lohec opined that the GBRV believes OPEC quota cuts will quickly return oil prices to the \$40-50 range and the strategy is thus a good short term investment. Lohec confirmed that PetroBoscan production was cut from 110,000 to 70,000 b/d in the round of quota cuts mandated following the September 10 OPEC meeting. PDVSA has since been doing daily production checks in an aggressive enforcement action. If further cuts are mandated, said Lohec, PetroBoscan will start to lose wells and capacity but he did not discount the possibility that PDVSA might order production to be cut as low as 30,000 b/d in quota cuts stemming from the December 17 meeting. Lohec underlined that PDVSA is mandating which joint ventures will take the cuts based on the price per barrel received for crude sales; the heavy Boscan crude is thus an attractive target for cuts.

13. (C) Lohec noted that production levels at PetroPiar (formerly Petrolera Ameriven) had fallen to 135,000 b/d following damage to its upgrader sulfur units in a widespread power outage on October 19. While he anticipated that production could return to 170,000 b/d the first week of January, he did not rule out the possibility that PDVSA would also order this project to take quota cuts.

PAYMENT DIFFICULTIES

14. (C) Lohec also confirmed that payments from PDVSA are lagging. Payments for Petroboscan are "quite a bit behind," he said, with the payment for the 4th quarter of 2007 and the first quarter of 2008 approved but not yet paid. According to Lohec, PDVSA is calling for significant cuts in capital and operating expenses. While some of the cuts are appropriate, said Lohec, it is too early to tell how draconian they will be. PDVSA does not, he added, wish to cut employment and salaries. PDVSA is, he said, appealing to its joint venture partners for a cash infusion.

CARABOBO ROUND DATES SLIP

15. (C) Turning to a brief discussion of the ongoing Carabobo Round, Lohec opined that bids, originally expected between March and April 2009, would slip until May-June, if not later. Lohec noted that Chevron would prefer to bid on the basis of the maximum 40 percent share allowed to joint venture partners but acknowledged that PDVSA might mandate "desired marriages," particularly with deep-pocketed Chinese or Japanese partners. Finally, Lohec commented that PDVSA might not receive the bid bonuses it is looking for but he added that it is possible the company will decide it is more interested in development than bonuses. Dates are also slipping for the development of the Delta Caribe LNG project. According to Lohec, an interim agreement spelling out the ground rules for the next stage of project development was

supposed to have been signed in November but is still unsigned.

OTHER CHEVRON ACTIVITIES IN VENEZUELA

16. (C) Lohec also confirmed that Chevron had signaled its willingness to entertain a PDVSA effort to consolidate several smaller joint ventures in Lake Maracaibo. (Note: Petroindependiente (formerly Chevron's LL-652), Lagopetrol (with Hocol), Petrowarao (Perenco)). Lohec noted that CNPC had signed on to the proposal within the past two days and that Shell's Petroregional del Lago might also be considered for consolidation. Noting that "PDVSA clearly wants this to be a done deal," Lohec underlined that this is still at the stage of doing a study on how the consolidation of the joint ventures could be managed. This proposal could, however, be a winner for Chevron because the combined project might take advantage of a Maracaibo Lake facility that was developed for LL-652 and never utilized to its fullest capability.

7.(C) In finishing his overview of Chevron's activities in Venezuela, Lohec added that the company is selling out of the domestic lubricants business. It is also currently negotiating the sale of its service stations in the aftermath of the September passage of a law mandating government control of domestic transportation and wholesale of liquid fuels. Lohec commented wryly that environmental liabilities will doubtless be raised in the negotiations. Finally, he said, in early spring Chevron is looking to spud its first well in the off-shore Cardon III block awarded to Chevron in the 2005 Rafael Urdaneta bid round.

ON A POLITICAL NOTE

18. (C) Finally, Lohec confided that PDVSA had contacted Chevron to ask why a Chevron secondee to the PetroPiar project had not yet signed the petition supporting the upcoming referendum for President Chavez's indefinite re-election. The company responded that the secondee is a U.S. citizen.

COMMENT

9.(C) Chevron continues to take the long view in Venezuela. Lohec is heartened by the apparent recognition on the part of PDVSA that it cannot take on the financial and operational management of the Carabobo projects itself.
CAULFIELD